

ORIGINAL



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MEMORANDUM

TO: Docket Control
Arizona Corporation Commission

FROM: Ernest G. Johnson
Director
Utilities Division

DATE: June 14, 2006

RE: STAFF REPORT FOR THE APPLICATION OF WILLOW SPRINGS
UTILITIES, LLC, FOR A CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE WATER AND SEWER SERVICES
DOCKET NO. WS-20432A-05-0874

Attached is the Staff Report for the application of Willow Springs Utilities, LLC, for a Certificate of Convenience and Necessity to provide water and sewer service. Staff recommends approval with compliance requirements.

EGJ:LAJ:tdp

Originator: Linda Jaress

Arizona Corporation Commission

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JUN 14 2006

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Service List for: Willow Springs Utilities LLC
Docket No. WS-20432A-05-0874

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Director, Utilities Division
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Chief, Hearing Division
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STAFF REPORT
UTILITIES DIVISION
ARIZONA CORPORATION COMMISSION

WILLOW SPRINGS UTILITIES, LLC

DOCKET NO. WS-20432A-05-0874

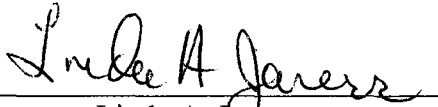
APPLICATION FOR A CERTIFICATE OF CONVENIENCE AND
NECESSITY TO PROVIDE
WATER AND SEWER SERVICE

June 14, 2006

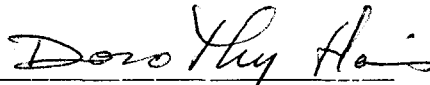
STAFF ACKNOWLEDGEMENT

The Staff Report for Willow Springs Utilities LLC (Docket No. WS-20432A-05-0874) was prepared by the Staff members listed below. Linda Jaress prepared the Staff Report, Dorothy Hains prepared the Engineering Report and Jamie Moe prepared the Financial and Regulatory Analysis Report.

Contributing Staff:



Linda A. Jaress
Executive Consultant II



Dorothy Hains/
Utilities Engineer



Jamie Moe
Public Utilities Analyst V

**EXECUTIVE SUMMARY
WILLOW SPRINGS UTILITIES LLC
DOCKET NO. WS-20432A-05-0874**

Willow Springs Utilities, LLC ("Willow Springs" or "the Company"), filed an application for approval of a Certificate of Convenience and Necessity (CC&N) to provide water and wastewater service in Pinal County north of the town of Oracle. The Company believes it will be serving approximately 1,800 customers by the fifth year of operations. Willow Springs is in an Active Management Area.

Staff concludes that the costs of the proposed water and wastewater systems are reasonable and that the systems will provide adequate capacity to serve the proposed CC&N area.

Developer provided capital (advances and contributions) for the water and wastewater operations is estimated to comprise 36 percent and 39 percent, respectively of each divisions capital structure. Staff generally recommends that advances and contributions not exceed 25 to 30 percent of the capital costs. The Commission is currently evaluating the appropriate level of AIAC and CIAC in Docket No. W-00000C-06-0149. If the Commission determines that a percentage lower than 36 or 39 percent of capital costs is appropriate, the Company should adjust its capital expenditure funding so as to be in compliance with the final Commission decision in that Docket when filing for new rates.

Using the Company's estimated average usage of 9,034 gallons per residential customer, the average residential bill under Staff's recommended rates will be \$64.80, an increase of \$9.15 over the average residential bill under the Company's proposed rates of \$55.65.

Staff and the Company are proposing wastewater rates based upon water meter size. For a 5/8 x 3/4 inch meter, the monthly rate proposed by the Company is \$52.00. Staff's proposed rate is \$22.25 greater at \$72.25 per month.

Staff concludes that approving Willow Spring's application for a CC&N to provide sewer service is in the public interest. Staff recommends approval of the application.

Staff also recommends that the Commission should find a projected fair value rate base for year five to be \$4,556,235 for the water division and \$6,786,880 for the wastewater division

Staff recommends that the Commission's decision on this matter should allow the Company to collect from its customers a proportionate share of any privilege, sales or use tax for the sales of any effluent only.

Staff also recommends the Willow Springs should be aware that the Commission is currently evaluating the appropriate level of AIAC and CIAC in Docket No. W-00000C-06-0149, and the Company should adjust its capital expenditure funding so as to be in compliance with the final Commission decision in that Docket when filing for new rates.

Staff recommends denial of the Company's request for an off-site hookup fee for water and wastewater services.

Staff also recommends that the Commission order Willow Springs to:

1. File with Docket Control, as a compliance item in this docket, a copy of the Approval to Construct ("ATC") Arizona Department of Environmental Quality ("ADEQ") issues for the proposed Phase I water source/treatment and distribution system no later than September 30, 2007.
2. File with Docket Control, as a compliance item in this docket, a copy of the Approval of Construction ("AOC") ADEQ issues for the proposed Phase I water source/treatment and distribution system no later than December 31, 2007.
3. File with Docket Control a copy of the Certificate of Assured Water Supply issued by ADWR within one year of the effective date of the decision in this matter.
4. File with Docket Control, as a compliance item in this docket, a copy of the notice issued by ADEQ that the Company's Aquifer Protection Permit ("APP") and Arizona Pollutant Discharge Elimination System ("AZPDES") has been approved no later than December 31, 2007.
5. File with Docket Control, as a compliance item in this docket, a copy of the CAAG approved 208 plan no later than May 31, 2007.
6. Use the depreciation rates shown on Tables 1 and 2 of Exhibit 2 for its water and wastewater systems.
7. File a curtailment tariff no later than ninety (90) days after the effective date of the final Opinion and Order in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at www.cc.state.az.us.
8. Charge the meter and service line installation charges proposed by the Company as shown in Table 3 of Exhibit 2.
9. Charge the rates and charges as shown in Schedules JRM-6 and JRM-10
10. File a rate case in its sixth year of operations, using the fifth year as the test year.
11. File in Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.

12. Maintain its books and records in accordance with the NARUC Uniform System of Accounts.
13. File with Docket Control, as a compliance item in this docket, a notification of service to its first customer within 15 days of serving its first customer.

Staff further recommends that the Commission's Decision granting this CC&N to Willow Springs be considered null and void, after due process, if the Company fails to meet the filing requirements 1 through 5 within the time specified.

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Introduction

Willow Springs Utilities, LLC ("Willow Springs" or "the Company"), filed an application for approval of a Certificate of Convenience and Necessity ("CC&N") to provide water and wastewater service in Pinal County north of the town of Oracle. Exhibit One, attached, is the legal description and map of the proposed service area. The Company is owned by Willow Springs Properties, LLC which is owned by ANAM, Inc. and U.S. Home Corporation. According to the Pinal County Assessor's Office, ANAM, Inc. owns large areas of land in Pinal County. U.S. Home Corporation is owned by Lennar Corporation.

Although there are several water and wastewater utilities in Pinal County, the developers of the Willow Spring development elected to form a water and wastewater utility. According to the Company, Arizona Water Company and Saddlebrooke Utilities were contacted about providing service to the development. Arizona Water would only provide water service and operates over six miles away from the closest portion of the development. Also, Willow Springs considered Arizona Water's costs estimates "not competitive". Saddlebrooke Utilities is even further away, approximately 12 miles from the development.

Willow Springs is in the Tucson Active Management Area.

The Proposed Facilities—Water

Exhibit Two, attached, is Staff's Engineering Report which describes in detail the proposed water and wastewater plant, its capacity and costs. According to the Engineering Report, the Company plans to install water utility plant consisting of two wells which would produce 800 gallons per minute each, one 750,000 gallon storage tank, two booster pump stations and a distribution system to serve 1,786 customers within the first five years of operation. Staff concludes that the proposed water system will have adequate production and storage capacity to serve the proposed CC&N area.

The estimated cost of the water plant for Phase I of the development is \$12.2 million. Staff believes that this cost is reasonable.

The Proposed Facilities---Wastewater

Staff's Engineering Report describes the planned wastewater treatment and disposal system which, for Phase I of the development, consists of a 400,000 gallon per day treatment plant, reuse distribution reservoirs, and a disposal system. The plant is designed to treat wastewater effluent to A+ quality. The system will be equipped with a membrane bioreactor treatment system to remove pollutants. Although the initial plant may not have adequate treatment capacity to treat wastewater flow from the approximately 1,800 customers expected, the Company plans to install its Phase II expansion when 80% of the Phase I treatment capacity is reached.

Staff concludes that the proposed wastewater system will have adequate capacity to serve the proposed CC&N area.

The estimated cost of the wastewater plant for Phase One of the development is \$14.5 million. Staff believes the cost is reasonable.

Arizona Department of Environmental Quality Compliance – Water

Before constructing the water utility plant, the Company must acquire an Approval to Construct from the Arizona Department of Environmental Quality (“ADEQ”). Therefore, Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the ADEQ Approval to Construct for the proposed Phase I water system no later than September 30, 2007. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the Approval of Construction, also issued by ADEQ, for the proposed Phase I water source/treatment and distribution system no later than December 31, 2007.

Arizona Department of Water Resources (“ADWR”) --- Water

The Company is located in the Tucson Active Management Area, as designated by ADWR. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the Certificate of Assured Water Supply, stating that there is adequate water to serve the proposed customers, where applicable or when required by statute, within one year of the effective date of the final decision and order issued pursuant to this application.

Arizona Department of Environmental Quality Compliance --- Sewer

ADEQ also issues Approvals to Construct and Approvals of Construction for sewer plant. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the Approval to Construct from ADEQ issues for the proposed Phase I sewer collection system no later than September 30, 2007. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the Approval of Construction for the proposed Phase I sewer collection system no later than December 31, 2007.

ADEQ also requires sewer companies to obtain an Aquifer Protection Permit (“APP”) and/or Arizona Pollutant Discharge Elimination System (“AZPDES”) permit before the plant can be placed in service. The Company has not yet obtained these permits. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the notice issued by ADEQ that the Company’s APP and AZPDES has been approved no later than October 31, 2007.

Central Arizona Association of Governments---Sewer

Approval of an amendment to the Central Arizona Association of Governments ("CAAG") Section 208 plan for the sewer system is also required. The Company has submitted its request to CAAG for the amendment. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the CAAG approved 208 plan no later than January 31, 2007.

Curtailment Tariff and Hook-up Fee

A curtailment tariff is an effective tool to allow a water company to manage its resources during periods of water shortages. The Company did not include a curtailment tariff in its application. Staff recommends that the Company file a curtailment tariff no later than ninety (90) days after the effective date of the final Decision and Order in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification.

Staff further recommends that the tariff generally conform to the sample tariff found on the Commission's web site at www.cc.state.az.us. Staff recognizes that the Company may need to make minor modifications according to their specific management, operational, and design requirements as necessary and appropriate.

The Company proposed to charge off-site hookup fees for new water and wastewater service connections. Because a new water and wastewater CC&N is being established, Staff recommends that the Company's request to implement off-site hookup fees for its water and wastewater services be denied.

Rate Base, Rate of Return and Rates - Water

Attached as Exhibit 3 is the Staff Report from the Utility Division's Finance and Regulatory Analysis Section wherein the estimates of five-year revenues, expenses, plant and financing are discussed. Staff's recommended water revenues, as shown on Schedule JRM-I of Exhibit 3, would generate operating income of \$364,535 resulting in an 8.00 percent rate of return on Staff's adjusted original cost rate base ("OCRB") of \$4,556,235. Staff recommends a projected FVRB in year five of \$4,556,235 for the water division.

Schedule JRM-6 presents Staff's recommended rates and charges for the Willow Springs water division. The Company expects that in the fifth year of operations it will serve an average of 1,450 residential customers, 50 commercial customers, and one school. Using the Company's estimated average usage of 9,034 gallons per residential customer, the average residential bill under Staff's recommended rates will be \$64.80, an increase of \$9.15 over the average residential bill under the Company's proposed rates of \$55.65.

Rate Base, Rate of Return and Rates - Wastewater

For the wastewater operations, Staff's recommended wastewater revenues would generate operating income of \$543,161 resulting in an 8.00 percent rate of return on a Staff OCRB of \$6,786,880 as shown on Schedule JRM-7 of Exhibit 3. Staff recommends a projected FVRB in year five of \$6,786,880 for the wastewater division.

Schedule JRM-10 presents a complete list of the Company's proposed, and Staff's recommended rates and charges for the Willow Springs wastewater division. Staff and the Company are proposing wastewater rates based upon water meter size. For a 5/8 x 3/4 inch meter, the monthly rate proposed by the Company is \$52.00. Staff's proposed rate is \$22.25 greater at \$72.25 per month.

Capital Structure

For the water division, the Company's estimated capital structure at the end of year 5 includes Advances in aid of Construction ("AIAC") and Contributions in Aid of Construction ("CIAC") representing approximately 36 percent of total capital expenditures. AIAC and CIAC for the wastewater operations is estimated to comprise 39 percent of the capital structure of the wastewater division. Staff generally recommends that advances and contributions not exceed 25 to 30 percent of the capital costs. The Commission is currently evaluating the appropriate level of AIAC and CIAC in Docket No. W-00000C-06-0149. If the Commission determines that a percentage lower than 36 or 39 percent of capital costs is appropriate, the Company should adjust its capital expenditure funding so as to be in compliance with the final Commission decision in that Docket when filing for new rates.

Conclusions and Recommendations

Staff concludes that approving Willow Spring's application for a CC&N to provide water and sewer service is in the public interest. Staff recommends approval of the application.

Staff also recommends that the Commission should find a projected fair value rate base for year five to be \$4,556,235 for the water division and \$6,786,880 for the wastewater division

Staff recommends that the Commission's decision on this matter should allow the Company to collect from its customers a proportionate share of any privilege, sales or use tax for the sales of any effluent only.

Staff also recommends the Willow Springs should be aware that the Commission is currently evaluating the appropriate level of AIAC and CIAC in Docket No. W-00000C-06-0149, and the Company should adjust its capital expenditure funding so as to be in compliance with the final Commission decision in that Docket when filing for new rates.

Staff recommends denial of the Company's request for an off-site hookup fee for water and wastewater services.

Staff also recommends that the Commission order Willow Springs to:

1. File with Docket Control, as a compliance item in this docket, a copy of the Approval to Construct Arizona Department of Environmental Quality issues for the proposed Phase I water source/treatment and distribution system no later than September 30, 2007.
2. File with Docket Control, as a compliance item in this docket, a copy of the Approval of Construction ADEQ issues for the proposed Phase I water source/treatment and distribution system no later than December 31, 2007.
3. File with Docket Control a copy of the Certificate of Assured Water Supply issued by ADWR within one year of the effective date of the decision in this matter.
4. File with Docket Control, as a compliance item in this docket, a copy of the notice issued by ADEQ that the Company's Aquifer Protection Permit ("APP") and Arizona Pollutant Discharge Elimination System ("AZPDES") has been approved no later than December 31, 2007.
5. File with Docket Control, as a compliance item in this docket, a copy of the CAAG approved 208 plan no later than May 31, 2007.
6. Use the depreciation rates shown on Tables 1 and 2 of Exhibit 2 for its water and wastewater systems.
7. File a curtailment tariff no later than ninety (90) days after the effective date of the final Opinion and Order in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at www.cc.state.az.us.
8. Charge the meter and service line installation charges proposed by the Company as shown in Table 3 of Exhibit 2.
9. Charge the rates and charges as shown in Schedules JRM-6 and JRM-10
10. File a rate case in its sixth year of operations, using the fifth year as the test year.

11. File in Docket Control, as a compliance item in this docket, a schedule of its approved rates and charges within 30 days after the Decision in this matter is issued.
12. Maintain its books and records in accordance with the NARUC Uniform System of Accounts.
13. File with Docket Control, as a compliance item in this docket, a notification of service to its first customer within 15 days of serving its first customer.

Staff further recommends that the Commission's Decision granting this CC&N to Willow Springs be considered null and void, after due process, if the Company fails to meet the filing requirements 1 through 5 within the time specified.

MEMORANDUM

TO: Linda Jaress
Executive Consultant III
Utilities Division

FROM: Barb Wells *bw*
Information Technology Specialist
Utilities Division

THRU: Del Smith *DS*
Engineering Supervisor
Utilities Division

DATE: December 22, 2005

RE: **WILLOW SPRINGS UTILITIES, LLC (DOCKET NO. WS-20432A-05-0874)**

The area requested by Willow Springs for a CC&N for water and wastewater has been plotted with no complications using the legal description provided with the application (a copy of which is attached).

Also attached is a copy of the map for your files.

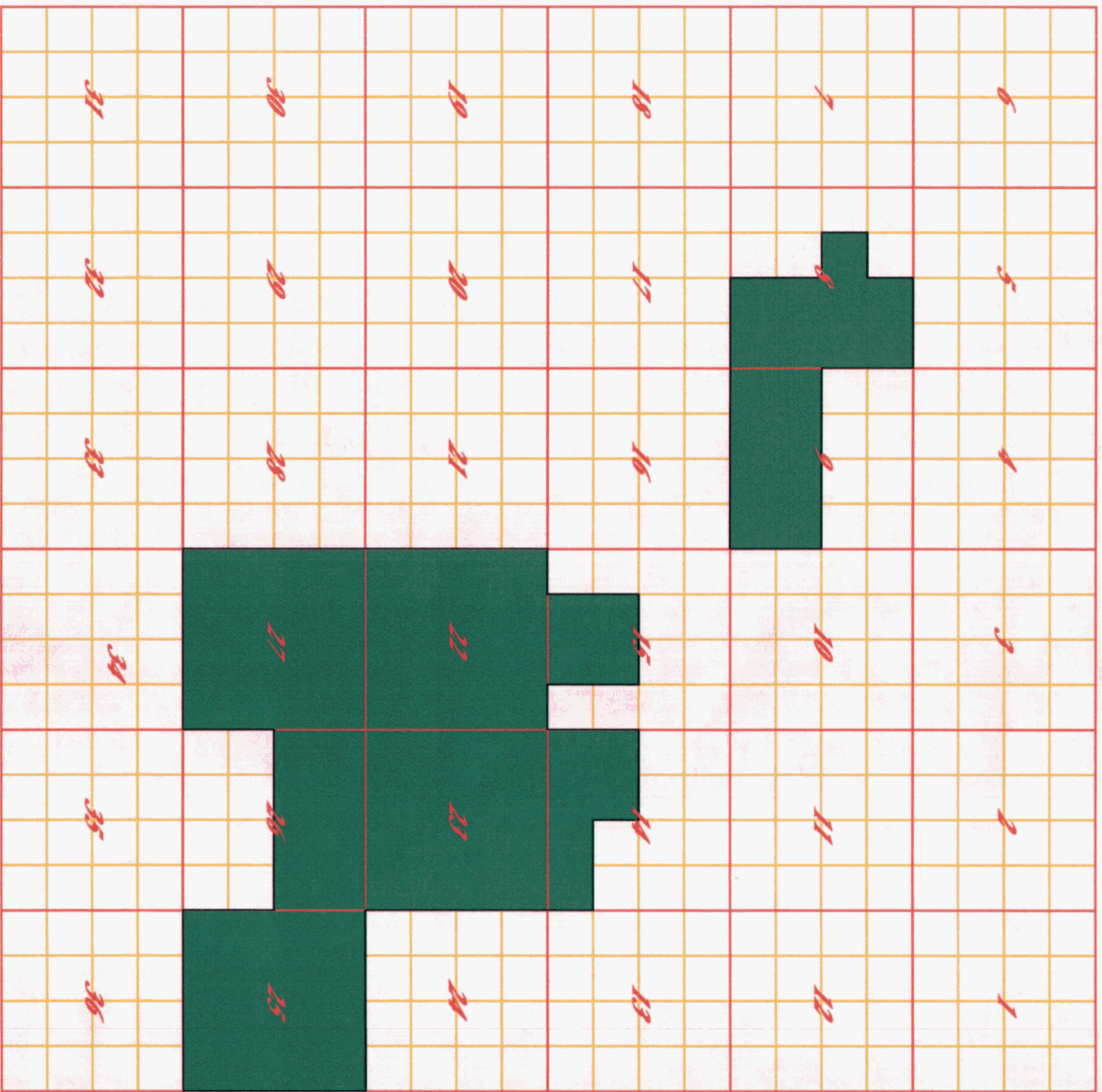
:bsw

Attachments

cc: Docket Control
Mr. Richard Sallquist
Ms. Deb Person (Hand Carried)
File

COUNTY: Pinal

RANGE 13 East



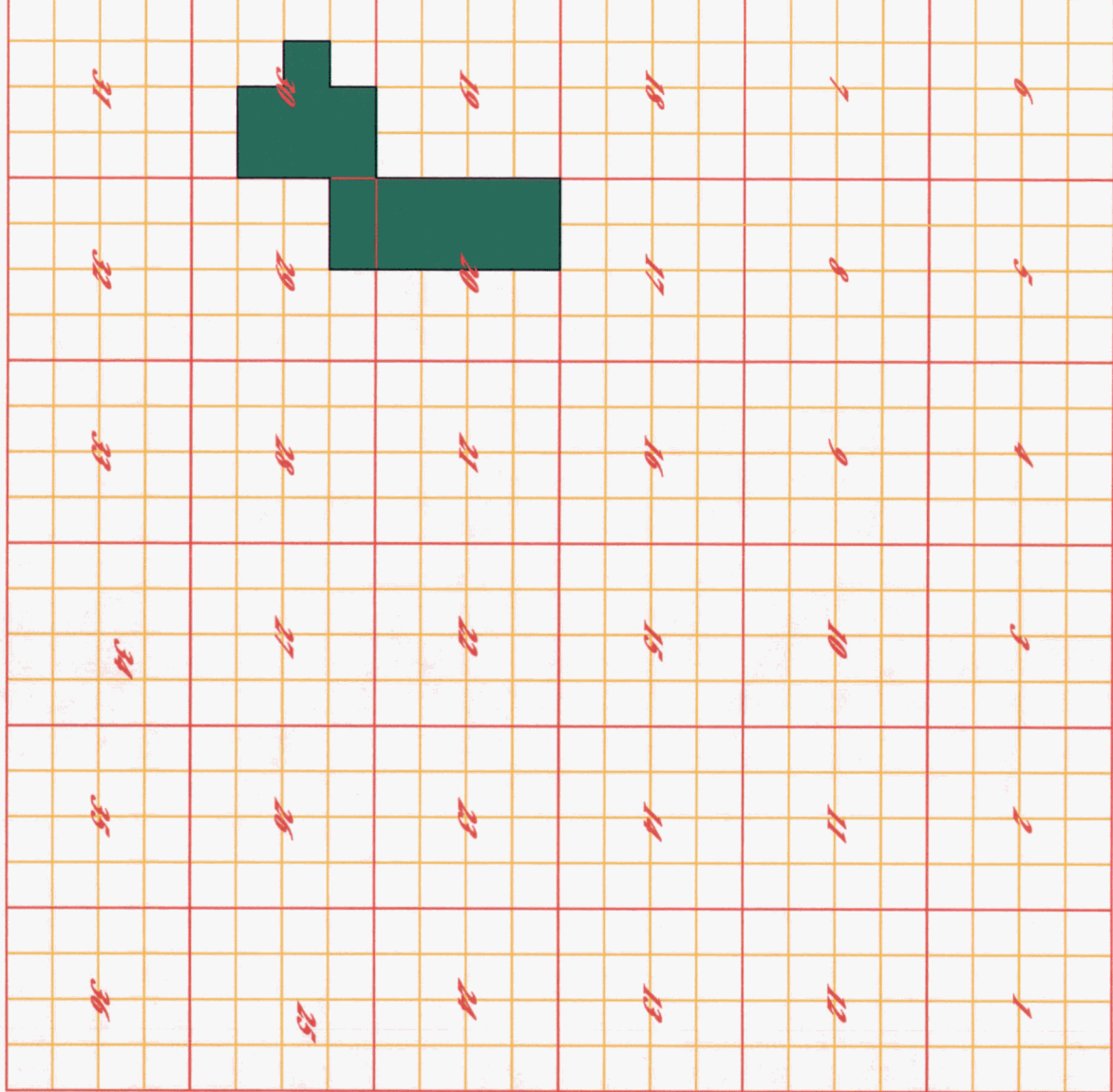
TOWNSHIP 8 South



WS-20432 (2)
Willow Springs Utilities, LLC
Docket No. WS-20432A-05-0874
Application for CC&N (Water & Sewer)

COCONINO *Pinal*

RANGE 14 East



TOWNSHIP 8 South

WS-20432 (2)
Willow Springs Utilities, LLC
Docket No. WS-20432A-05-0874
Application for CC&N (Water & Sewer)

Wood, Patel & Associates, Inc.
(480) 834-3300
www.woodpatel.com

November 1, 2005
WP# 052340.01
Page 1 of 3
See Exhibit "A"

PARCEL DESCRIPTION
Willow Springs
Proposed South Village

Parcel No. 1:

The Southeast quarter of the Northwest quarter of Section 8, Township 8 South, Range 13 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

EXCEPT all gas, oil, metals and mineral rights as reserved by the State of Arizona in the patent to said land; and

EXCEPT an undivided 3/4th interest in all oil, gas and mineral rights as reserved in document recorded in Docket 556, Page 352.

Parcel No. 2:

The East half of Section 8 AND the South half of Section 9, BOTH in Township 8 South, Range 13 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

EXCEPT all the coal and other minerals as reserved by the United States of America in the patent to said land.

Parcel No. 3:

The Southwest quarter AND the South half of the Southeast quarter of Section 14, Township 8 South, Range 13 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

EXCEPT all the coal and other minerals as reserved by the United States of America in the patent to said land.

Parcel No. 4:

The West half of the Southeast quarter AND the East half of the Southwest quarter of Section 15, Township 8 South, Range 13 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

EXCEPT all the coal and other minerals as reserved by the United States of America in the patent to said land.

Parcel Description
Willow Springs
Proposed South Village

November 1, 2005
WP# 052340.01
Page 2 of 3
See Exhibit "A"

Parcel No. 5:

All of Sections 22, 23, 25, 27 and the North half of Section 26, ALL in Township 8 South, Range 13 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

EXCEPT all the coal and other minerals as reserved by the United States of America in the patent to said land, as to all except the Northwest quarter of the Northeast quarter AND the Southeast quarter of the Northwest quarter of said Section 23.

Parcel No. 6:

The West half of Section 20, Township 8 South, Range 14 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

EXCEPT all the coal and other minerals as reserved by the United States of America in the patent to said land.

Parcel No. 7:

The North half of the Northwest quarter of Section 29 AND the Southeast quarter of the Northwest quarter and the North half of the Southeast quarter and the Northeast quarter of Section 30, ALL of Township 8 South, Range 14 East of the Gila and Salt River Base and Meridian, Pinal County, Arizona.

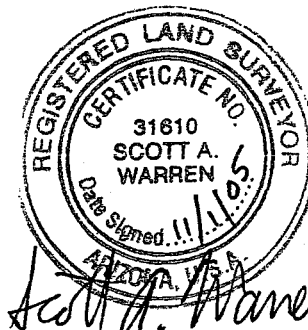
EXCEPT all the coal and other minerals as reserved by the United States of America in the patent to said land, as to the North half of the Northwest quarter of said Section 29 AND the North half of the Southeast quarter and the Northeast quarter of said Section 30.

Containing 4,640.4685 acres, or 202,138,807 square feet of land, more or less.

Subject to existing rights-of-way and easements.

This parcel description is based on the ALTA Survey recorded in Survey Book 7, page 297, Pinal County Records and other client provided information. This parcel description is located within an area surveyed by Wood, Patel & Associates, Inc. during the month of April, 2005 and any monumentation noted in this parcel description is within acceptable tolerance (as defined in Arizona Boundary Survey Minimum Standards dated 02/14/2002) of said positions based on said survey.

Y:\Parcel Descriptions\052340 Willow Springs Proposed South Village.doc



MEMORANDUM

DATE June 14, 2006

TO: Jamie Moe
Public Utilities Analyst

Linda Jaress
Executive Consultant III

FROM: Dorothy Hains DH
Utilities Engineer

RE: New Water & Wastewater CC&N Application for Willow Springs Utilities, LLC
Docket No. WS-20432A-05-0874

I. Introduction

Willow Springs Utilities, LLC ("Willow Springs" or "Company") has submitted a Certificate of Convenience and Necessity ("CC&N") application to provide water and wastewater service near the town of Oracle in south east Pinal County. The requested water and wastewater service areas overlap are approximately twelve square miles in size and include all or portions of Sections 8, 9, 14, 15, 22, 23, 25, 26 and 27 in Township 8 South and Range 13 East and all or portions of Sections 20, 29 and 30 of Township 8 South, Range 14 East. The Company estimates approximately 1,800 customers will need to be served within five years in the requested area.

II. System Analysis

A. Water System

The Company proposes a water system¹ that will consist of two wells (800 gallons per minute ("GPM") each), one storage tank (750,000 gallons), two booster pump stations (one 2,400 GPM and one 1,300 GPM) and a distribution system to serve approximately 1,800 customers within the first five years of operation. The Company estimates 297 gallons per day ("gpd") per connection for residential customers, 1,000 gpd per connection for commercial customers, 1,500 gpd for schools and 750 gpd for a clubhouse.

¹ It is named as Phase I water system.

Staff concludes that the proposed water system will have adequate production and storage capacity to serve the proposed CC&N area within a conventional five year planning period. It can reasonably be expected that the Company will develop additional storage and production capacity when it is required in the future.

B. Wastewater System

The Company proposes an on-site wastewater treatment and disposal system. The treatment and disposal system will consist of a 400,000 gallons per day (0.4 MGD) treatment plant (Phase I), reclaimed water storage and disposal system to serve customer growth in the first five years. The plant is designed to treat wastewater effluent to A+ quality. The system will be equipped with a Membrane Bioreactor treatment system to remove pollutants. The 0.4 MGD plant will not have adequate treatment capacity to treat wastewater flow from 1,800 customers. However the Company assured Staff that its Phase II plant expansion will begin as soon as 80% of the Phase I treatment capacity is reached.

Staff concludes that the proposed wastewater system will have adequate capacity to serve the proposed CC&N area within a conventional five year planning period. It can reasonably be expected that the Company will develop additional system capacity when it is required in the future.

The proposed sewage collection system will require Arizona Department of Environmental Quality ("ADEQ") to issue an Approval To Construct ("ATC") and Approvals Of Construction ("AOC"). Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the ATC ADEQ issues for the proposed Phase I sewer collection system no later than September 30, 2007. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the AOC ADEQ issues for the proposed Phase I sewer collection system no later than December 31, 2007.

III. Cost Analysis

A. Water System

The Company's cost estimates are listed in the right-hand column of the table below:

NARUC Account	Description	Company's cost estimate (\$) ¹
301	Organization	25,000
302	Franchise	0
303	Land & Land Rights	0
304	Structure & Improvements	0
307	Wells: Two wells	1,525,000
311	Pumping Equipment:	843,750
320	Water treatment plant	5,000
330	Reservoirs/ Standpipes: One 750,000 gal storage tank	562,500
331	Mains & Transmission	3,973,670 ²
333	Service lines	1,665,000
334	Meters & Meter installations	539,000
335	Fire hydrants	3,012,000 ³
336	Backflow prevention devise	
339	Miscellaneous Plant Equipment	0
340	Office Furniture and fixtures	0
341	Transportation Equipment	25,000
344	Lab equipment	0
	Total	12,170,920

- Note:
1. Estimates are for Phase I construction of the proposed water system.
 2. \$1,542,420 will be funded through developer paid advances and \$2,431,250 will be funded by the Company.
 3. This amount will be funded through developer paid contributions.

The Company estimated total cost is \$12,170,920. Staff concludes that the estimated costs are reasonable and appropriate for this project. The approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for future rate making or rate base purposes.

B. Wastewater System

The Company's cost estimates are listed in the right-hand column of the table below:

NARUC Account	Description	Company's cost estimate (\$) ¹
351	Organization	25,000
352	Franchise	0
353	Land & Land Rights:	0
354	Structure & Improvements	0
355	Power Generation Equipment	0
361	Collection Sewer – Gravity fed	5,569,850 ²
363	Service laterals:	1,022,400 ³
364	Flow measuring devices	0
365	Flow measuring installations	0
366	Reuse services	0
367	Reuse meters and Meter Installation	0
370	Receiving wells:	0
371	Pumping Equipment	250,000
374	Reuse Distribution Reservoirs	468,750
375	Reuse Transmission and Distribution	908,438
380	Treatment & disposal Equipment (0.4 MGD MBR treatment plant)	6,250,000 ⁴
381	Plant Sewers	0
382	Outfall Sewer Lines	0
389	Other Plant and Miscellaneous	0
390	Office Furniture and equipment	5,000
391	Transportation Equipment	25,000
392	Store Equipment	0
393	Tools, shop and garage equipment	0
394	Lab equipment	5,000
395	Power Operated equipment	0
396	Communication Equipment	0
397	Miscellaneous Plant Equipment	10,000
398	Other Tangible Plant	0
	Total	14,524,438

- Note:
1. Estimates are for Phase I construction of the proposed wastewater system.
 2. \$3,605,250 will be funded through developer paid advances and \$1,964,600 will be funded by the Company.
 3. This amount will be funded through developer paid contributions.
 4. This estimate includes a 25% contingency.

The Company's estimated total cost is \$14,524,438 for a 0.4 MGD (Phase I) wastewater treatment system which equates to a unit cost of approximately \$36.31 per gallon of treated effluent. However, this cost includes \$7,500,688 for sewer collection lines and

reuse transmission lines. Staff calculated \$12.50 per gallon to install the 0.4 MGD treatment plant. Staff concludes that these estimated costs are reasonable and appropriate for this project.

The approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for rate making or rate base purposes.

IV. ADEQ Capacity Development

A. Water System

ADEQ Capacity Development rules, effective September 23, 1999, require new public drinking water systems to meet (1) financial capacity, (2) managerial capacity, and (3) technical capacity requirements. ADEQ will accept a financial determination made by this Commission as meeting the financial capacity requirements for new water systems under the jurisdiction of the Commission. The technical and managerial capability is determined by ADEQ. All three components are combined in the final approval of the water company's "elementary business plan", pursuant to ADEQ rule R-18-4-606. The three components are reviewed and approved sequentially, with the technical capacity approval and "Approval to Construct" ("ATC") being the last performed. The ATC acts as a control point in the process, and once an ATC has been issued; it can be assumed that the water company has complied with the capacity development rules. Therefore, Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the ATC ADEQ issues for the proposed Phase I water source/treatment and distribution system no later than September 30, 2007. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the AOC ADEQ issues for the proposed Phase I water source/treatment and distribution system no later than December 31, 2007.

B. Wastewater System

The Aquifer Protection Permit ("APP") and Arizona Pollutant Discharge Elimination System ("AZPDES") discharge permits issued by ADEQ will be required before the plant can be placed in service. At this time, ADEQ has not issued either an APP or an AZPDES for the proposed system. The Central Arizona Association of Governments ("CAGA") Section 208 plan approval will also be needed. The Company has started its CAAG approval process; however the 208 plan has not been approved yet. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the CAAG approved 208 plan no later than May 31, 2007. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the notice issued by ADEQ that the Company's APP and AZPDES has been approved no later than December 31, 2007.

V. Arizona Department of Water Resources ("ADWR")

Water System

The Company is located in the Tucson Active Management Area ("AMA"), as designated by ADWR. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of Certificate of Water Supply Assurance, stating that there is adequate water to serve the proposed customers, where applicable or when required by statute, within one year of the effective date of the final decision and order issued pursuant to this application.

VI. Depreciation Rates

A. Water System

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table 1, and it is recommended that the Company use the depreciation rates by individual National Association of Regulatory Utility Commissioners ("NARUC") category, as delineated in this table.

Table 1
Water Depreciation Rates

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
304	Structures & Improvements	30	3.33
305	Collecting & Impounding Reservoirs	40	2.50
306	Lake, River, Canal Intakes	40	2.50
307	Wells & Springs	30	3.33
308	Infiltration Galleries	15	6.67
309	Raw Water Supply Mains	50	2.00
310	Power Generation Equipment	20	5.00
311	Pumping Equipment	8	12.5
320	Water Treatment Equipment		
320.1	Water Treatment Plants	30	3.33
320.2	Solution Chemical Feeders	5	20.0
330	Distribution Reservoirs & Standpipes		
330.1	Storage Tanks	45	2.22
330.2	Pressure Tanks	20	5.00
331	Transmission & Distribution Mains	50	2.00
333	Services	30	3.33
334	Meters	12	8.33
335	Hydrants	50	2.00
336	Backflow Prevention Devices	15	6.67
339	Other Plant & Misc Equipment	15	6.67
340	Office Furniture & Equipment	15	6.67
340.1	Computers & Software	5	20.00
341	Transportation Equipment	5	20.00
342	Stores Equipment	25	4.00
343	Tools, Shop & Garage Equipment	20	5.00
344	Laboratory Equipment	10	10.00
345	Power Operated Equipment	20	5.00
346	Communication Equipment	10	10.00
347	Miscellaneous Equipment	10	10.00
348	Other Tangible Plant	----	----

B. Wastewater System

Staff has developed typical and customary depreciation rates within a range of anticipated equipment life. These rates are presented in Table 2, and it is recommended that the Company use the depreciation rates by individual NARUC category, as delineated in this table.

Table 2
DEPRECIATION RATES FOR WASTEWATER SYSTEM

Acct. No.	Depreciable Plant	Average Service Life (Years)	Annual Accrual Rate (%)
354	Structures & Improvements	30	3.33
355	Power Generation Equipment	30	3.33
360	Collection Sewers – Force	50	2.00
361	Collection Sewers – Gravity	50	2.00
362	Special Collecting Structures	50	2.00
363	Services to Customers	50	2.00
364	Flow Measuring Devices	10	10.00
365	Flow measuring Installations	20	5.00
366	Reuse Servicest	50	2.00
367	Reuse Meters and Meter Installations	30	3.33
370	Receiving Wells	30	3.33
371	Pumping Equipment	10	10.00
374	Reuse Distribution Reservoirs	40	2.50
375	Reuse Transmission and Distribution System	50	2.00
380	Treatment and Disposal Equipment	20	5.00
381	Plant Sewers	20	5.00
382	Outfall Sewer Lines	25	4.00
389	Other Plant & Misc Equipment	15	6.67
390	Office Furniture & Equipment	15	6.67
390.1	Computers & Software	5	20.00
391	Transportation Equipment	5	20.00
392	Store Equipment	25	4.00
393	Tools, Shop & Garage Equipment	20	5.00
394	Laboratory Equipment	10	10.00
395	Power Operated Equipment	20	5.00
396	Communication Equipment	10	10.00
397	Miscellaneous Equipment	10	10.00
398	Other Tangible Plant	----	----

VII. Other Issues

A. Curtailment Tariff

A curtailment tariff is an effective tool to allow a water company to manage its resources during periods of shortages due to pump breakdowns, droughts, or other unforeseeable events. Since the Company does not have a curtailment tariff, this application provides an opportune time to prepare and file such a tariff. Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than ninety (90) days after the effective date of the final Decision and Order in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification.

Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at www.cc.state.az.us. Staff recognizes that the Company may need to make minor modifications according to their specific management, operational, and design requirements as necessary and appropriate.

B. Off-site Hookup Fee Charges For Water and Wastewater Systems

The Company has proposed to implement off-site hookup fees for new water and wastewater service connections. Because new water and wastewater CC&Ns are being established, Staff recommends that the Company's request to implement off-site hookup fees for its water and wastewater services be denied.

C. Service Line and Meter Installation Charges

The Company's meter and service line installation charges proposal are listed in Table 3. These charges are refundable advances and the Company's proposed charges are within Staff's experience of what are reasonable and customary charges. Therefore, Staff recommends approval of meter and service line installation charges proposed by the Company as shown in Table 3.

Table 3. Service Line and Meter Installation Charges

Meter Size	Proposed Charges	Staff Recommendation
5/8 x3/4-inch	\$480	\$480
3/4-inch	\$560	\$560
1-inch	\$650	\$650
1-½-inch	\$895	\$895
2-inch (turbo)	\$1,555	\$1,555
2-inch (compound)	\$2,280	\$2,280
3-inch (turbine)	\$2,235	\$2,235
3-inch (compound)	\$3,070	\$3,070
4-inch (turbine)	\$3,440	\$3,440
4-inch (compound)	\$4,395	\$4,395
6" (turbine)	\$6,210	\$6,210
6-inch (compound)	\$7,970	\$7,970

VIII. Summary

I. Conclusions


1. Staff concludes that the proposed water system will have adequate production and storage capacity to serve the proposed CC&N area within a conventional five year planning period. It can reasonably be expected that the Company will develop additional storage and production capacity when it is required in the future.
2. Staff concludes that the proposed wastewater system will have adequate capacity to serve the proposed CC&N area within a conventional five year planning period. It can reasonably be expected that the Company will develop additional system capacity when it is required in the future.
3. The Company's estimated water and wastewater system costs appear reasonable and appropriate. However, approval of this CC&N application does not imply any particular future treatment for rate base. No "used and useful" determination of the proposed plant in service was made, and no conclusions should be inferred for rate making or rate base purposes.
4. The Willow Springs Utilities requested service area is located in Tucson AMA.

II. Recommendations

1. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the Approval To Construct ("ATC") Arizona Department of Environmental Quality ("ADEQ") issues for the proposed Phase I water source/treatment and distribution system no later than September 30, 2007.7.
2. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the Approval Of Construction ("AOC") ADEQ issues for the proposed Phase I water source/treatment and distribution system no later than December 31, 2007.
3. Staff further recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the notice issued by ADEQ that the Company's Aquifer Protection Permit ("APP") and Arizona Pollutant Discharge Elimination System ("AZPDES") has been approved no later than December 31, 2007.
4. Staff recommends that the Company file with Docket Control, as a compliance item in this docket, a copy of the CAAG approved 208 plan no later than May 31, 2007.
5. Staff recommends that the Company use the depreciation rates delineated in Tables 1 and 2 for its water and wastewater systems.
6. Staff recommends that the Company's request to implement off-site hookup fees for its water and wastewater services be denied.
7. Staff recommends that the Company file a curtailment tariff as soon as possible, but no later than ninety (90) days after the effective date of the final Decision and Order in this matter. The tariff shall be filed with Docket Control as a compliance item under this same docket number for Staff's review and certification. Staff further recommends that the tariff shall generally conform to the sample tariff found on the Commission's web site at www.cc.state.az.us.
8. Staff recommends approval of meter and service line installation charges proposed by the Company as shown in Table 3.

MEMORANDUM

TO: Linda Jaress
Executive Consultant
Utilities Division

FROM: Jamie R. Moe 
Public Utilities Analyst V
Financial and Regulatory Analysis Section
Utilities Division

DATE: June 13, 2006

RE: WILLOW SPRINGS UTILITIES, L.L.C. – APPLICATION FOR NEW WATER
AND WASTEWATER CC&N (DOCKET NO. WS-20432A-05-0874)

Introduction

On December 5, 2005, Willow Springs Utilities, LLC (“Willow Springs” or “Company”) filed an application with the Arizona Corporation Commission (“Commission”) for a Certificate of Convenience and Necessity (“CC&N”) to provide water and wastewater service to approximately twelve square miles near the town of Oracle in southeast Pinal County, Arizona.

Historical operating and financial information does not exist to provide a basis for establishing rates for these water and wastewater systems. Therefore, consistent with Commission rules, the Company’s filing included the required five-year projections for plant values, operating revenues, operating expenses, and customers.

Staff’s recommended water rates are based on the Company’s five-year projections, as adjusted by Staff. Staff recommends water revenues of \$1,368,454, an increase of \$226,767 from the Company’s proposed water revenues of \$1,141,687 in year five. Staff’s recommended water revenues would generate operating income of \$364,535 resulting in an 8.00 percent rate of return on a Staff adjusted original cost rate base (“OCRB”) of \$4,556,235 for water plant as shown on Schedule JRM-1.

Staff’s recommended wastewater rates are based on the Company’s five-year projections, as adjusted by Staff. Staff recommends wastewater revenues of \$1,421,218, an increase of \$380,652 from the Company’s proposed wastewater revenues of \$1,040,566 in year five. Staff’s recommended wastewater revenues would generate operating income of \$543,161 resulting in an 8.00 percent rate of return on a Staff OCRB of \$6,786,880 for wastewater plant as shown on Schedule JRM-7.

Projected Fair Value Rate Base ("FVRB")

The Company provided information that was sufficient to calculate the projected water OCRB as shown on Schedule JRM-2 and the wastewater OCRB as shown on Schedule JRM-8. Staff evaluated the projected OCRB as the FVRB. Staff recommends a projected FVRB in year five of \$4,556,235 for the water division and a projected FVRB in year five of \$6,786,880 for the wastewater division.

Projected Plant in Service

In the first year, the Company plans to invest \$5,578,320 in backbone plant and on-site facilities and a total investment of \$12,170,920 by the end of year five for the water division. Staff acknowledges that the costs of plant in service appear reasonable and appropriate for this project; approval of this CC&N application does not imply any particular future treatment for rate base.

In the first year, the Company plans to invest \$9,624,938 in backbone plant and on-site facilities and a total investment of \$14,216,438 by the end of year five for wastewater plant. Staff acknowledges that the costs of plant in service appear reasonable and appropriate for this project; approval of this CC&N application does not imply any particular future treatment for rate base.

Accumulated Depreciation

The Company's projected accumulated depreciation balances are shown by year on Schedule JRM-5 for water plant and Schedule JRM-9 for the wastewater plant. In the fifth year of water operations, Staff anticipates a \$1,230,481 accumulated depreciation balance based on Staff's recommended depreciation rates, a decrease of \$153,452 from the Company's anticipated balance of \$1,383,933 for accumulated depreciation. In the fifth year of wastewater operations, Staff anticipates a \$1,960,913 accumulated depreciation balance based on Staff's recommended depreciation rates, an increase of \$647,902 from the Company's anticipated balance of \$1,341,939 for accumulated depreciation.

Projected Advances In Aid of Construction ("AIAC") and Contributions In Aid of Construction ("CIAC")

For the water division, the Company's estimated AIAC at the end of year 5 totals \$1,591,620 and represents approximately 13 percent of the estimated gross capital expenditures of \$12,170,920. In the fifth year, the Company projects a net balance of \$3,012,000 for CIAC which represents approximately 23 percent of the estimated gross capital expenditures. The AIAC by builders (via mains extension agreements) and CIAC represent approximately 36 percent of the total capital expenditures. Staff generally recommends that advances and contributions not exceed 25 to 30 percent of the capital costs. The Company should be aware that the Commission is currently evaluating the appropriate level of AIAC and CIAC in Docket

No. W-00000C-06-0149. If the Commission determines that a percentage lower than 36 percent of capital costs is appropriate, the Company should adjust its capital expenditure funding so as to be in compliance with the final Commission decision in that Docket when filing for new rates.

For the wastewater division, the Company's estimated AIAC at the end of year 5 totals \$4,883,173 and represents approximately 34 percent of the estimated gross capital expenditures of \$14,216,438. In the fifth year, the Company projects a net balance of \$685,472 for CIAC which represents approximately 5 percent of the estimated gross capital expenditures. The AIAC by builders (via mains extension agreements) and CIAC represent approximately 39 percent of the total capital expenditures. Once again, Staff generally recommends that advances and contributions not exceed 25 to 30 percent of the capital costs. The Company should be aware that the Commission is currently evaluating the appropriate level of AIAC and CIAC in Docket No. W-00000C-06-0149. If the Commission determines that a percentage lower than 39 percent of capital costs is appropriate, the Company should adjust its capital expenditure funding so as to be in compliance with the final Commission decision in that Docket when filing for new rates.

Projected Operating Income

The Company provided projected revenues and expenses for five years. Staff's analysis, while taking into account all of the years presented, is concentrated on the fifth year of operation when breakeven or profitability is usually expected.

Projected Operating Revenues

Staff reviewed the Company's calculation of revenue based on the five-year projection and found it to be reasonable; however, Staff made an adjustment to reflect its calculations based upon a mid-year average for customer growth shown and Staff's recommended rate designs shown on Schedule JRM-6 for water and Schedule JRM-10 for wastewater. For the water division, Schedule JRM-1 reflects Staff's estimate of operating revenues in year five of \$1,368,454, an increase of \$226,767 from the Company's projection of \$1,141,687. For the wastewater division, Schedule JRM-7 reflects Staff's estimate of operating revenues in year five of \$1,421,218, an increase of \$380,652 from the Company's projection of \$1,040,566. These revenues are based upon the Company's projected customer growth shown on Schedule JRM-3.

Projected Operating Expenses

For the Willow Springs water division, Staff reviewed the operating expenses and found them to be reasonable. Staff adjusted the Company's proposed income tax expense to account for Staff's recommended year five revenues. As shown on Schedule JRM-4, Staff adjusted the water division's income tax expense to \$229,160, an increase of \$79,898 over the Company's projected income tax expense of \$149,262. Schedule JRM-1 reflects operating expenses of \$1,003,919 in year five, an increase of \$79,898 over the Company's projection of \$924,021.

For the Willow Springs wastewater division, Staff reviewed the operating expenses and

found them to be reasonable. Staff adjusted depreciation expense in year five to \$472,159, an increase of \$16,486 from the Company's projected depreciation expense of \$455,673. Schedule JRM-7 reflects operating expenses of \$878,057 in year five, an increase of \$16,486 over the Company's projection of \$924,021.

Rate Design

Schedule JRM-6 presents a complete list of the Company's proposed, and Staff's recommended rates and charges for the Willow Springs water division. The Company expects that in the fifth year of operations it will serve an average of 1,450 residential customers, 50 commercial customers, and one school. Staff recommends adoption of its recommended rates on as shown on Schedule JRM-6. Using the Company's estimated average of usage of 9,034 gallons per residential customer, the average residential bill under Staff's recommended rates will be \$64.80, an increase of \$9.15 over \$55.65, the average residential bill under the Company's proposed rates.

Schedule JRM-10 presents a complete list of the Company's proposed, and Staff's recommended rates and charges for the Willow Springs wastewater division. The Company expects that in the fifth year of operations it will serve an average of 1,450 residential customers, 50 commercial customers, one school and one effluent sales customer. Staff recommends adoption of its recommended rates on as shown on Schedule JRM-10.

Service Charges

Staff recommends adoption of the Company's proposed service charges. However, Staff recommends a non-sufficient funds ("NSF") check charge of \$25.00, which reflects the industry standard. This is a decrease of \$10.00 from the Company's proposed NSF check charge of \$35.00.

Staff Recommendations

Staff recommends approval of the Staff recommended rates and charges as shown in Schedules JRM-6 and JRM-10. In addition, the Company shall collect from its customers all applicable sales, transaction, privilege, regulatory or other taxes and assessments as may apply now or in the future, per Rule R14-2-409(D)(5).

Staff further recommends that the Commission make an estimated fair value rate base finding of \$4,556,235 in the fifth year for the Willow Springs water division and \$6,786,880 in the fifth year for the Company's wastewater division.

Staff further recommends that the Company utilize the depreciation rates stated in the attached Engineering Memorandum.

Staff further recommends that the Company be ordered to file for a rate case in its sixth

year of operations, using the fifth year as the test year.

Staff further recommends the Willow Springs should be aware that the Commission is currently evaluating the appropriate level of AIAC and CIAC in Docket No. W-00000C-06-0149, and the Company should adjust its capital expenditure funding so as to be in compliance with the final Commission decision in that Docket when filing for new rates.

WILLOW SPRINGS UTILITY COMPANY
DOCKET NO.: SW-20432A-05-00874
PROJECTED INCOME STATEMENTS
WATER DIVISION - ACC FORM CS-2

Schedule JRM-1

	Year 1	Year 2	Year 3	Year 4	Year 5
Average Number of:					
Residential Customers	25.0	250.0	650.0	1,050.0	1,450.0
Commercial Customers	-	5.0	17.5	32.5	50.0
Irrigation - Sewer Utility	0.5	1.0	1.0	1.0	1.0
School	-	-	0.5	1.0	1.0
Revenues:					
Residential	\$ 20,199	\$ 201,993	\$ 525,181	\$ 848,369	\$ 1,171,558
Commercial	-	9,095	31,834	59,120	90,954
Irrigation - Sewer Utility	121,749	103,097	66,287	28,656	-
School	-	-	47,403	94,806	94,806
Other Revenues - Est. of Service	1,530	12,300	12,480	12,450	12,600
Total Revenues	\$ 143,478	\$ 326,485	\$ 683,185	\$ 1,043,401	\$ 1,369,918
Operating Expenses:					
Salaries & Wages	\$ 68,500	\$ 70,555	\$ 72,672	\$ 74,852	\$ 77,097
Purchased Water	-	-	-	-	-
Power Costs	37,369	33,816	39,097	65,646	87,620
Water Testing and Chemicals	6,255	11,050	14,180	17,375	20,675
Repairs and Maintenance	2,000	6,000	9,000	12,000	15,000
Office Supplies Expnese	5,900	17,180	35,048	53,006	71,036
Outside Services	50,900	59,600	74,901	90,304	105,793
Rents	3,000	3,090	3,183	3,278	3,377
Transportation Expense	2,500	2,575	2,652	2,732	2,814
Taxes Other than Property and Income	-	-	-	-	-
Depreciation Expense	113,748	234,841	258,436	292,011	331,445
Health and Life Insurance	-	-	-	-	-
Income Taxes	50	50	50	50	229,725
Property Taxes	7,517	8,872	15,951	28,864	45,448
Miscellaneous Expenses	13,400	13,652	13,912	14,179	14,454
Total Operating Expenses	\$ 311,139	\$ 461,281	\$ 539,082	\$ 654,297	\$ 1,004,484
Operating Income (Loss)	\$ (167,661)	\$ (134,796)	\$ 144,103	\$ 389,104	\$ 365,434
Original Cost Rate Base	\$ 5,324,032	\$ 5,043,551	\$ 4,861,395	\$ 4,662,292	\$ 4,556,235
Return on Rate Base	-3.15%	-2.67%	2.96%	8.35%	8.02%

WILLOW SPRINGS UTILITY COMPANY
DOCKET NO.: SW-20432A-05-00874
PROJECTED ORIGINAL COST RATE BASE
WATER DIVISION

Schedule JRM-2

	Year 1	Year 2	Year 3	Year 4	Year 5
Plant In Service	\$ -	\$ 5,578,320	\$ 8,254,520	\$ 9,398,720	\$ 10,656,220
Plus: Plant Additions	5,578,320	2,676,200	1,144,200	1,257,500	1,514,700
Total Plant In Service	5,578,320	8,254,520	9,398,720	10,656,220	12,170,920
Less: Accumulated Depreciation	113,748	348,589	607,025	899,036	1,230,481
Net Plant In Service	5,464,572	7,905,931	8,791,695	9,757,184	10,940,439
Less:					
AIAC	41,820	378,020	714,220	1,152,920	1,591,620
CIAC	27,720	2,205,160	2,390,280	2,606,400	2,833,000
Meter Deposits	96,000	379,200	925,800	1,435,572	2,059,584
Plus:					
Working Capital	25,000	100,000	100,000	100,000	100,000
Original Cost Rate Base	\$ 5,324,032	\$ 5,043,551	\$ 4,861,395	\$ 4,662,292	\$ 4,556,235

WILLOW SPRINGS UTILITY COMPANY
DOCKET NO.: SW-20432A-05-00874
PROJECTED CUSTOMER GROWTH
WATER DIVISION

Schedule JRM-3

	Year 1	Year 2	Year 3	Year 4	Year 5
Residential 5/8":					
Beginning Customers	-	50	450	850	1,250
Customer Additions	50	400	400	400	400
Ending Balance	50	450	850	1,250	1,650
Average Residential Customers	25.0	250.0	650.0	1,050.0	1,450.0
Commercial 5/8":					
Beginning Customers	-	-	10	25	40
Customer Additions	-	10	15	15	20
Ending Balance	-	10	25	40	60
Average Commercial Customers	-	5.0	17.5	32.5	50.0
Sewer Utility:					
Beginning Customers	-	1	1	1	1
Customer Additions	1	-	-	-	-
Ending Balance	1	1	1	1	1
Average Sewer Customers	0.5	1.0	1.0	1.0	1.0
School					
Beginning Customers	-	-	-	1	1
Customer Additions	-	-	1	-	-
Ending Balance	-	-	1	1	1
Average Sewer Customers	-	-	0.5	1.0	1.0

WILLOW SPRINGS UTILITY COMPANY
DOCKET NO.: SW-20432A-05-00874
CALCULATION OF INCOME TAX
WATER DIVISION

Schedule JRM-4

	Estimated Year 5	
30 Revenues	\$ 1,369,918	
31 Operating Expenses Excluding Income Taxes	774,759	
32 Synchronized Interest	-	
33 Arizona Taxable Income (L30 - L31 - L32)	\$ 595,159	
34 Arizona State Income Tax Rate	6.9680%	
35 Arizona Income Tax (L33 x L34)		\$ 41,471
36 Federal Taxable Income (L33 - L35)	\$ 553,688	
37 Federal Tax on First Income Bracket (\$1 - \$50,000) @ 15%	7,500	
38 Federal Tax on Second Income Bracket (\$50,001 - \$75,000) @ 25%	6,250	
39 Federal Tax on Third Income Bracket (\$75,001 - \$100,000) @ 34%	8,500	
40 Federal Tax on Fourth Income Bracket (\$100,001 - \$335,000) @ 39%	91,650	
41 Federal Tax on Fifth Income Bracket (\$335,001 - \$10,000,000) @ 34%	74,354	
42 Total Federal Income Tax		\$ 188,254
43 Combined Federal and State Income Tax (L35 + L42)		<u>\$ 229,725</u>
44 Applicable Federal Income Tax Rate [Col. (D), L42 - Col. (B), L42] / [Col. (C), L36 - Col. (A), L36]		

Depreciation Schedule

	Additions Year 3	Retirements Year 3	Original Cost Year 3	Depr. Expense Year 3	Accum. Depr. Year 3	Additions Year 4	Retirements Year 4	Original Cost Year 4	Depr. Expense Year 4	Accum. Depr. Year 4	Additions Year 5	Retirements Year 5	Original Cost Year 5	Depr. Expense Year 5	Accum. Depr. Year 5
\$	-	-	\$ 25,000	-	-	\$	-	\$ 25,000	-	-	\$	-	-	\$ 25,000	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	1,525,000	50,783	126,957	-	-	1,525,000	50,783	177,740	-	-	1,525,000	50,783	228,523
-	-	-	843,750	105,469	263,672	-	-	843,750	105,469	369,141	-	-	843,750	105,469	474,610
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	562,500	12,488	31,220	-	-	562,500	12,488	43,708	-	-	562,500	12,488	56,196
-	-	-	3,145,470	59,547	137,101	-	-	3,534,970	66,804	203,905	-	-	3,973,670	75,086	278,991
336,200	-	-	592,000	12,321	17,249	389,500	-	1,054,500	27,414	44,663	438,700	-	1,865,000	45,280	89,943
444,000	-	-	220,000	12,828	18,326	462,500	-	357,500	24,053	42,379	610,500	-	539,000	37,339	79,718
132,000	-	-	-	-	-	137,500	-	2,728,000	51,880	121,600	181,500	-	3,012,000	57,400	179,000
232,000	-	-	2,460,000	46,880	69,720	268,000	-	-	-	-	284,000	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	25,000	5,000	12,500	-	-	25,000	5,000	17,500	-	-	25,000	5,000	22,500
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
\$ 1,144,200	\$ -	\$ -	\$ 9,398,720	\$ 305,316	\$ 676,745	\$ 1,257,500	\$ -	\$ 10,656,220	\$ 343,891	\$ 1,020,636	\$ 1,514,700	\$ -	\$ 12,170,920	\$ 388,845	\$ 1,409,481
-	-	-	2,460,000	46,880	69,720	-	-	2,728,000	51,880	121,600	-	-	3,012,000	57,400	179,000
-	-	-	714,220	-	-	-	-	1,152,920	-	-	-	-	1,591,820	-	-
-	-	-	6,224,500	258,436	607,025	-	-	6,775,300	292,011	899,036	-	-	7,567,300	331,445	1,230,481

WILLOW SPRINGS UTILITY COMPANY
DOCKET NO.: SW-20432A-05-00874
PROJECTED INCOME STATEMENTS
WASTEWATER DIVISION - ACC FORM CS-2

Schedule JRM-7

	Year 1	Year 2	Year 3	Year 4	Year 5
Average Number of:					
Residential Customers	25.0	250.0	650.0	1,050.0	1,450.0
Commercial Customers	-	5.0	17.5	32.5	50.0
School	-	-	0.5	1.0	1.0
Revenues:					
Revenues from Wastewater Treatment	\$ 21,675	\$ 221,085	\$ 582,191	\$ 945,464	\$ 1,307,436
Establishment Fees	1,500	12,300	12,480	12,450	12,600
Effluent	101,212	101,182	101,182	101,182	101,182
Total Revenues	\$ 124,387	\$ 334,567	\$ 695,853	\$ 1,059,096	\$ 1,421,218
Operating Expenses:					
Pumping Power	\$ 38,034	\$ 53,266	\$ 87,191	\$ 124,490	\$ 163,194
Wages	50,000	51,500	53,045	54,636	56,275
Payroll Burden	16,500	16,995	17,505	18,030	18,571
Purchased Water @ \$1.50 per 1,000 gal	121,749	103,097	66,287	28,656	-
Permits (not capitalized to plant)	5,000	5,000	5,000	5,000	5,000
Licenses (not capitalized to plant)	2,000	2,060	2,122	2,185	2,251
Engineering (not capitalized to plant)	2,000	2,060	2,122	2,185	2,251
Chemicals	6,000	9,000	12,000	15,000	18,000
Supplies	4,000	5,000	6,000	7,000	8,000
Repairs	2,000	6,000	9,000	12,000	15,000
Insurance	4,000	4,120	4,244	4,371	4,502
Office Expense	1,000	3,000	5,000	7,000	9,000
Billing, Postage, Operations	-	-	-	-	-
Contract Labor	2,000	2,060	2,122	2,185	2,251
Administrative Services	459	4,608	12,042	19,521	27,036
Rentals	3,000	3,090	3,183	3,278	3,377
Depreciation (net of amortization of CIAC)	203,084	410,668	426,243	448,759	472,159
Vehicles	2,500	2,575	2,652	2,732	2,814
Legal & Accounting	12,000	12,360	12,731	13,113	13,506
Miscellaneous Expenses	2,400	2,472	2,546	2,623	2,701
Testing	255	2,300	4,430	6,630	8,930
Income Taxes	50	50	50	50	50
Property Taxes	6,479	9,644	17,534	29,832	43,189
Total Operating Expenses	\$ 484,510	\$ 710,925	\$ 753,049	\$ 809,276	\$ 878,057
Operating Income (Loss)	\$ (360,123)	\$ (376,358)	\$ (57,197)	\$ 249,820	\$ 543,161
Original Cost Rate Base	\$ 9,370,558	\$ 8,981,689	\$ 8,702,230	\$ 7,968,852	\$ 6,786,880
Return on Rate Base	-3.84%	-4.19%	-0.66%	3.13%	8.00%

WILLOW SPRINGS UTILITY COMPANY
DOCKET NO.: SW-20432A-05-00874
PROJECTED ORIGINAL COST RATE BASE
WASTEWATER DIVISION

Schedule JRM-8

	Year 1	Year 2	Year 3	Year 4	Year 5
Plant In Service	\$ -	\$ 9,624,938	\$ 10,238,438	\$ 11,516,438	\$ 12,836,438
Plus: Plant Additions	9,624,938	613,500	1,278,000	1,320,000	1,380,000
Total Plant In Service	9,624,938	10,238,438	11,516,438	12,836,438	14,216,438
Less: Accumulated Depreciation	203,084	613,752	1,039,995	1,488,754	1,960,913
Net Plant In Service	9,421,854	9,624,686	10,476,443	11,347,684	12,255,525
Less:					
AIAC (net)	56,100	561,245	1,527,445	2,964,912	4,883,173
CIAC	20,196	181,752	346,768	513,920	685,472
Plus:					
Working Capital	25,000	100,000	100,000	100,000	100,000
Original Cost Rate Base	\$ 9,370,558	\$ 8,981,689	\$ 8,702,230	\$ 7,968,852	\$ 6,786,880

Description	Original Cost	Accum. Depr.	Additions Year 1	Retirements Year 1	Original Cost Year 1	Depr. Expense Year 1	Accum. Depr. Year 1	Additions Year 2	Retirements Year 2	Original Cost Year 2	Depr. Expense Year 2	Accum. Depr. Year 2
351 Organization	\$ -	\$ -	\$ 25,000	\$ -	\$ 25,000	\$ -	\$ -	\$ -	\$ -	\$ 25,000	\$ -	\$ -
352 Franchises	-	-	-	-	-	-	-	-	-	-	-	-
353 Land and Land Rights	-	-	-	-	-	-	-	-	-	-	-	-
354 Structures & Improvements	-	-	-	-	-	-	-	-	-	-	-	-
355 Power Generation Equipment	-	-	-	-	-	-	-	-	-	-	-	-
361 Collection Sewer - Gravity Fed	-	-	1,672,350	-	1,672,350	16,724	16,724	449,900	-	2,122,250	37,946	54,670
363 Service Laterals	-	-	20,400	-	20,400	204	204	183,600	-	184,000	2,044	2,248
364 Flow Measuring Devices	-	-	-	-	-	-	-	-	-	-	-	-
365 Flow Measuring Installations	-	-	-	-	-	-	-	-	-	-	-	-
366 Reuse Services	-	-	-	-	-	-	-	-	-	-	-	-
367 Reuse Meters and Meter Installation	-	-	-	-	-	-	-	-	-	-	-	-
370 Receiving Wells	-	-	-	-	-	-	-	-	-	-	-	-
371 Pumping Equipment	-	-	250,000	-	250,000	12,500	12,500	-	-	250,000	25,000	37,500
374 Reuse Distribution Reservoirs	-	-	468,750	-	468,750	5,859	5,859	-	-	468,750	11,719	17,578
375 Reuse Transmission and Distribution	-	-	908,438	-	908,438	9,084	9,084	-	-	908,438	18,169	27,253
380 Treatment & Disposal Equipment	-	-	6,250,000	-	6,250,000	156,250	156,250	-	-	6,250,000	312,500	468,750
381 Plant Sewers	-	-	-	-	-	-	-	-	-	-	-	-
382 Outfall Sewer Lines	-	-	-	-	-	-	-	-	-	-	-	-
389 Other Plant and Miscellaneous	-	-	-	-	-	-	-	-	-	-	-	-
390 Office Furniture and Equipment	-	-	5,000	-	5,000	167	167	-	-	5,000	334	501
391 Transportation Equipment	-	-	25,000	-	25,000	2,500	2,500	-	-	25,000	5,000	7,500
392 Store Equipment	-	-	-	-	-	-	-	-	-	-	-	-
393 Tools, Shop and Garage Equipment	-	-	-	-	-	-	-	-	-	-	-	-
394 Lab Equipment	-	-	-	-	-	-	-	-	-	-	-	-
395 Power Operated Equipment	-	-	-	-	-	-	-	-	-	-	-	-
396 Communication Equipment	-	-	-	-	-	-	-	-	-	-	-	-
397 Miscellaneous Plant Equipment	-	-	-	-	-	-	-	-	-	-	-	-
398 Other Tangible Plant	-	-	-	-	-	-	-	-	-	-	-	-
	\$ -	\$ -	\$ 9,624,938	\$ -	\$ 9,624,938	\$ 203,288	\$ 203,288	\$ 613,500	\$ -	\$ 10,238,438	\$ 412,712	\$ 616,000
AIAC					56,100					561,245		
CIAC					20,400	204	204	-	-	184,000	2,044	2,248
OCRB & Depr. Expense					9,548,438	203,084	203,084			10,054,438	410,668	613,752

Depreciation Schedule

[illegible]

WILLOW SPRINGS UTILITY COMPANY
DOCKET NO.: SW-20432A-05-00874
SCHEDULE OF RECOMMENDED RATES AND CHARGES
WASTEWATER DIVISION

Schedule JRM-10

	Company Proposed	Staff Recommended
Monthly Wastewater Service:		
Residential & Commercial Service		
5/8 x 3/4 Inch	\$ 52.00	\$ 72.25
3/4 Inch	52.00	72.25
1 Inch	130.00	180.63
1 1/2 Inch	260.00	361.25
2 Inch	416.00	578.00
3 Inch	832.00	1,156.00
4 Inch	1,300.00	1,806.25
6 Inch	2,600.00	3,612.50
Effluent Sales		
Per Acre Foot	\$ 449.67	\$ 449.67
Per 1,000 Gallons	1.38	1.38
Other Rates and Charges:		
Establishment of Service - Regular Hours	\$ 30.00	\$ 30.00
Establishment of Service - After Hours	50.00	50.00
Re-establishment of Service (Within 12 Months)	(1)	(1)
Reconnection - Delinquent	50.00	50.00
Customer Deposit	(2)	(2)
Deposit Interest	3.50%	(2)
NSF Check Charge	35.00	25.00
Late Payment Penalty - Per Month	1.50%	1.50%
Deferred Payment Interest - Per Month	1.50%	1.50%
Main Extensions/Additional Facilities	Cost	Cost
Revenue Taxes & Assessments	(3)	(3)

Notes:

- (1) Per Rule R14-2-603D - Months off system times the minimum charge.
- (2) Per Rule R14-2-603B
- (3) Per Rule R14-2-608D